

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

September 15, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, September 15, 2009, at 1:00 p.m., in Room 169 of the Capitol Annex. Representative Susan Westrom, Co-Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senator Elizabeth Tori; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: John Hicks, Governor's Office for Policy and Management; Sam Ruth, Department of Facilities and Support Services; Larry Todd, Department of Parks; Charles Bush, Division of Real Properties; Sandy Williams, and John Covington, Kentucky Infrastructure Authority; Brett Antle, Office of Financial Management; and Susan Cottingham, Kentucky Housing Corporation.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Representative Rudy made a motion to approve the minutes of the August 18, 2009 meeting. The motion was seconded by Representative Wayne and approved by voice vote.

Representative Westrom called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained correspondence from the Cabinet for Economic Development, and the staff and bond market updates.

Mr. Mullis next reported that the University of Louisville (UL) has used available federal, general, and indirect cost recovery funds totaling \$214,793, to acquire an item of research equipment. Purchases of unbudgeted equipment must be reported to the Committee, but no further action is required.

Representative Westrom recognized John Hicks, Deputy Director, Governor's Office for Policy and Management, and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet. Mr. Hicks said that the Tourism, Arts, and Heritage Cabinet is reporting allocations from the Department of Parks, Parks Development Pool to fund two projects: Carter Cave Campground Renovation (\$1,300,000) and Pennyryle Forest Campground Renovation (\$1,100,000). The Carter

Cave project will provide for the design of horse camping sites to include site development, roads, utilities, and building structures. The Pennyriple Forest project will reprogram the current camping facility to include horse camping sites and will include site development, horse trails, roads, utilities, and building structures. Allocations in excess of \$400,000 must be reported to the Committee, but no further action is required.

In response to questions from Representative Wayne, Mr. Hicks said that \$4 million of the Parks Development Pool was allocated for campground upgrades. He said that the \$60 million for the Parks Development Pool and the \$35 million Parks Renovation Pool is fully obligated for projects.

Representative Westrom asked if any of the projects from these pools involved golf courses. Mr. Hicks said that approximately \$3.5 million from the Parks Development Pool was used to complete the General Burnside golf course.

Representative Westrom asked how many people use the Burnside golf course. Larry Todd, Deputy Commissioner, Department of Parks, said he did not have exact numbers, but since General Burnside opened last spring, it has been the Parks most popular golf course.

Senator Leeper asked Mr. Hicks what the criteria was for the Green Bank of Kentucky program. Mr. Hicks said that the Finance and Administration Cabinet will be taking applications from state agencies to invest funds into energy savings projects. Mr. Ruth said that Kentucky received \$18 million in federal stimulus money for this program. There are three types of applications for state agencies: an e-self; a hybrid; and an Energy Savings Performance Contract (ESPC).

In response to further questions from Senator Leeper, Mr. Ruth said that the Green Bank of Kentucky is a loan program and the energy savings generated will be used to repay the loan. The loans will range from 5-15 years depending on the size of the project and useful life of the equipment. He said that only state buildings are eligible for this program not leased buildings.

Next Representative Westrom called on Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report 11 emergency leases. Mr. Bush said that the Finance Cabinet has declared an emergency under KRS 56.805 to allow for procurement of temporary storm debris storage sites for the Transportation Cabinet. No action is required for emergency leases.

Senator Leeper asked why the annual cost for the Owen County lease (PR-5021) was a single payment and all the other leases are based on a per month cost. Mr. Bush said he thought that the single payment may have been negotiated up front. He said he would report the information back to the Committee.

In response to a question from Senator Tori, Mr. Bush said that the leases should be coming to a close this year. Senator Tori asked Mr. Bush to report back to the Committee when the leases are completed.

In response to a question from Representative Damron, Mr. Bush said that when the leases are finished, the storage sites will be cleaned and all debris will be removed.

Representative Westrom called on Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present 13 loan requests. Ms. Williams said that the first loan request was a \$263,246 Fund A loan for the City of Ashland in Boyd County for the replacement of sanitary sewer lines along Putnam Street. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The second loan request was a \$1,200,000 Fund A loan for the City of Covington in Kenton County for the Prisoner's Lake Rainwater Harvest project. The loan term is 20 years with a two percent interest rate. The funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a \$135,000 Fund A loan for the City of Bowling Green in Warren County for the benefit of Bowling Green Municipal Utilities for the purchase of mobile generators. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fourth loan request was a \$250,000 Fund A loan for the City of Wilder in Campbell County for sanitary sewer service to approximately 12 homes and one church on St. John's Lane. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The fifth loan request was a \$800,000 Fund A loan for the City of Frankfort in Franklin County for the Jones Lane Sewer Extension project. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The sixth loan request was a \$125,000 Fund A loan for the City of Richmond in Madison County to replace a Cantex submersible can-type lift station with a new duplex submersible station. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked for clarification on the "other" costs in the project budget for the Fund A loan for the City of Covington in Kenton County. Ms. Williams said this project is not a traditional sewer project, but a storm water project and the "other" costs associated with the budget are for a storm water control plan.

Senator Tori asked why the City of Frankfort enacted rate increases for its customers. Ms. Williams said the rate increases are not a result of this loan, but planned rate increases that have already been put into place to fund upcoming sewer projects. Senator Tori said that based on the current economic climate, these rate increases should have been delayed.

Senator Tori then asked why the City of Richmond enacted rate increases every year through 2014. Ms. Williams said that the City of Richmond's rate increases are a result of a new \$54 million wastewater treatment plant as well as to contend with the growth in the area and is not a result of this loan.

Representative Damron made a motion to approve the six Fund A loan requests. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Ms. Williams reported that the seventh loan request was a \$7,500,000 Fund F loan for the City of Paducah in McCracken County for the benefit of Paducah Water Works for the Reidland Interconnect project. The loan term is 20 years with an interest rate of one percent.

The eighth loan request was a \$4,000,000 Fund F loan for the Louisville Water Company in Jefferson County for the I-64 Pipeline project. The loan term is 20 years with an interest rate of two percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The ninth loan request was a \$400,000 Fund F loan for the City of Elkton in Todd County for the purchase and installation of 1,000 radio meters to help identify areas of water loss. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The tenth loan request was a \$1,500,000 Fund F loan for the City of Jackson in Breathitt County for a raw water intake project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

The eleventh loan request was a \$1,900,000 Fund F loan for Bluegrass Station in Fayette County for the completion of water system upgrades. The loan term is 20 years with an interest rate of three percent. The funding for this loan comes from the American Recovery and Reinvestment Act and represents \$1,670,000 of Kentucky's required Green Reserve component.

The twelfth loan request was a \$2,120,000 Fund F loan for the City of Dawson Springs in Hopkins County for a waterline replacement project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act and the full loan amount will be used toward fulfilling Kentucky's Green Reserve requirement.

The thirteenth loan request was a \$1,153,000 Fund F loan for the City of Burkesville in Cumberland County for the Main Street Water Main replacement project. The loan term is 20 years with an interest rate of one percent. The funding for this loan comes from the American Recovery and Reinvestment Act.

Representative Rudy made a motion to approve the seven Fund F loan requests. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

In response to a question from Representative Westrom, Ms. Williams said that some of the projects are for waterline replacements. The projects were selected based on environmental benefits as well as economic benefits.

Representative Westrom asked if KIA could provide the Committee with a progress report of infrastructure projects across the state. Ms. Williams said it would be difficult to gather the information, but would do some research and let the Committee know if a report is possible. She also said this information could be available from the Division of Water.

Representative Damron commented that the 2020 Water Plan could give a baseline of the infrastructure projects across the state. Ms. Williams agreed. John Covington, Executive Director, KIA, said that KIA is responsible for statewide planning for water and wastewater and is currently in the process of beginning the prioritization of clean drinking water and wastewater projects across the state. He said there is a statewide database of all proposed and existing infrastructure projects for all systems that choose to participate.

In response to a question from Representative Westrom, Mr. Covington said KIA provides updates to the Agriculture Committee on the tobacco settlement line item grants. He said KIA would be happy to present information to the Committee on the planning process of infrastructure projects.

Next Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Representative Westrom called Brett Antle, Deputy Director, Office of Financial Management, to the table. Mr. Antle presented a new bond issue for Kentucky Housing

Corporation (KHC) Multifamily Housing Revenue Bonds, Series 2009 (Country Place Apartments). Proceeds from this conduit bond issue will be used to finance the acquisition, rehabilitation, and equipping of the 150-unit Country Place Apartments in Hebron, Kentucky. All of the units included in the project will be reserved for families earning 60 percent or less of the area median income.

Representative Wayne asked why the KHC Executive Board would approve this project when research has shown that concentrating poor people in one area is not good social policy. Mr. Antle deferred to KHC. Susan Cottingham, KHC, said that Country Place Apartments are existing low-income housing units and the majority of the units are occupied. A developer wants to buy the property and remodel the units.

Representative Wayne asked what the logic was behind KHC wanting to subsidize and support this type of project. Ms. Cottingham said that KHC's goal is to preserve affordable housing and KHC is interested in using its tax-exempt bonding authority for this project. Representative Wayne commented that he could not support the project because it does not involve mixed-income housing, but low-income housing units only. He said research shows that concentrating low-income households in one area has had unintended consequences that the community pays the price for.

Representative Damron asked if KHC is just issuing the bonds and the developer is the one actually investing money. Ms. Cottingham responded affirmatively.

In response to further questions from Representative Damron, Ms. Cottingham said Summit Asset of Alabama was the developer and she thought the principles were also based in Alabama. The property is currently on an option to purchase. Ms. Cottingham said that Summit Asset is acquiring the property from Flournay Development of Georgia.

Representative Damron asked what the current rental rates are and what the new rental rates will be. Ms. Cottingham said she would report the information back to the Committee.

Representative Westrom asked what the occupancy rate was over the last six months. Ms. Cottingham said she would report the information back to the Committee.

Senator Leeper asked if KHC could restrict the use of issuing of bonds at a tax-exempt rate to in-state developers only. Ms. Cottingham said she would have to defer to legal counsel and report back to the Committee.

Representative Damron made a motion to defer action on the KHC bond issue until the next Committee meeting. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Mr. Antle reported three new bond issues with School Facilities Construction Commission (SFCC) debt participation for Madison County, Perry County, and Todd County.

Representative Rudy made a motion to approve the new SFCC bond issues. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Representative Westrom asked Mr. Mullis to report a new local school bond issue. Mr. Mullis said there was a new school district bond issue with 100 percent local debt support for Bullitt County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:15 p.m.